

EXECUTIVE DIRECTOR UPDATE – TYPES OF SERVICE PURCHASES

AT ATRS

OVERVIEW

AS A PRELIMINARY MATTER IF YOU ARE AN ATRS RETIREE OR YOU ARE IN T-DROP, THEN YOU **ARE NOT ELIGIBLE TO PURCHASE SERVICE!**

This Executive Director Update will address issues about creating a service purchase account and the types of service that may be purchased at ATRS. A news article on service purchases changes by new legislation has helped generate a lot of interest in this topic. ATRS staff must stress the importance of our members acting QUICKLY to meet the deadline to use the current service purchase formula. **The current service purchase formula is replaced by an actuarial cost formula on July 1, 2011!** With all the weather issues and other circumstances, several ATRS executive director updates may have been lost in the shuffle. ATRS has received numerous calls regarding the establishment of purchase accounts. Here is some information on the issue from a previous update. (see Executive Director Update 02/08/10 at:

http://artrs.gov/index.php?option=com_content&task=view&id=248&Itemid=27

HB1212, which is now ACT 69, will change from the current formula based calculation (using the date of service being purchased, the contribution rate in effect at the time of service and an 8% annual interest rate) to the actuarial value of service on such

purchases. ATRS anticipates that many of our active members will choose to take advantage of the small window of opportunity between February 18, 2011 and July 1, 2011 to purchase available service using the "old formula". Purchase accounts utilizing the "old formula" must be **fully established** prior to **July 1, 2011**. Any purchase that is undertaken after that date uses actuarial value for the cost to the member.

An active (working) member may be eligible to purchase service in the system, thus increasing the total number of years used in the calculation of benefits for the member. Each type of "purchase service" currently has specific provisions on the cost calculation. A member intending to purchase service under the "old formula" should be aware of the “**often lengthy**” process of establishing service credit. In many cases, certification from multiple sources is required prior to the establishment of the purchase account. The required certifications typically involve local, state, out-of-state, and/or federal entities to verify previous employment and/or involvement in other retirement plans. Some are very slow to respond and provide required information. **The receipt of the outside information by ATRS is the responsibility of the member!**

Once the system receives completed paperwork from the member and verification of prior employment and/or prior participation in other retirement system(s), a cost estimate for the purchase of service will be provided to the member. Finally, a commitment statement and payment plan will be completed by the member and ATRS to establish a purchase account. All of these steps must be complete for a purchase account to be recognized as established. As another reminder, this entire process

must be completed prior to **July 1, 2011** in order to establish a purchase account **using the old formula**. If a member has interest in purchasing service with ATRS, then the active member should contact the ATRS Benefits & Counseling office at **501-682-1517** or **1-800-666-2877** without delay.

Below please find general descriptions of the purchase service accounts available in the Arkansas Teacher Retirement System. **In most instances, a member is considered “active”, to allow the purchase of service, if the member has not retired and has recently been employed by an ATRS employer, is currently employed by an ATRS employer, or is currently employed in a position covered by another Arkansas retirement system such as APERS. The specifics regarding each individual member's active status and purchase rights may vary.**

ALL THE FOLLOWING TYPES OF PURCHASES WILL REQUIRE ACTUARIAL VALUE TO PURCHASE SERVICE

1. Changing noncontributory service to contributory service

Under current law, active members with noncontributory service in ATRS may convert noncontributory service to contributory service, which produces higher retirement benefits in the benefit calculations. Under the existing purchase formula, members are required to pay the employee contributions at the contribution rate in effect at the time of service and an 8% annual interest rate. This will change to ACTUARIAL COST!

2. Repayment of ATRS refunded service

Under the current law, active members who terminated employment previously and withdrew their contributions plus interest may restore the service by repaying the refunded contributions plus interest plus 8% annual interest from the date of withdrawal to the date of repayment. This will change to ACTUARIAL COST!

3. Out-of-State Teaching service

Under the current law, active members may be eligible to purchase up to fifteen (15) years of out-of-state service provided the service was rendered in a position that would have been covered by ATRS had it been in a public school our state and the member is not drawing or eligible to draw retirement from another entity based on the same service. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

4. Private School teaching service

Under the current law, active members may be eligible to purchase up to fifteen (15) years of private school service provided the service was rendered in a private school recognized by the Arkansas Department of Education and the member is not drawing or eligible to draw retirement from another entity based on the same service. (Employment under the Head Start Programs will be considered private school service.) The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

5. Overseas teaching service

Under current law, active members may be eligible to purchase up to ten (10) years of overseas service provided they have worked in an American type school sponsored and approved by the U.S. Department of State, the Department of Defense or provided service in the Peace Corps or Volunteers In Service To America (VISTA) and the member is not drawing or eligible to draw retirement from another entity based on the same service. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

6. Sabbatical leave

Under current law, active members could be eligible to establish credit for service during a leave of absence taken to obtain an advanced degree or to fulfill requirements of a grant at an institution of higher learning. The leave must have been since June 28, 1985, and must be for at least 120 days during each fiscal year. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

7. Prior service (unreported in an ATRS covered position)

Under current law, active members may be eligible to establish service rendered in an ATRS covered position on which no employer or employee contributions have been paid. This usually includes **older** part-time service, substitute teaching service,

teacher's aide's service, and most other service that was provided prior to the law that required all ATRS employers to report all employees to ATRS. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST!

8. Domestic Federal service

Under current law, active members may be eligible to purchase up to ten (10) years of domestic federal service provided the service was rendered in a position covered by ATRS had it been in our state and the member is not drawing or eligible to draw retirement from another entity based on the same service. The cost is currently calculated using the salary, dates of service, and compound interest. This will change to ACTUARIAL COST.

9. Federal Retirement service

Under current law, active members may be eligible to purchase up to ten (10) years of Federal Retirement service provided the member is not drawing or eligible to draw retirement from the Federal Retirement System. This purchase uses a current salary calculation to substitute for the old salary and then uses dates of service and compound interest. This will change to ACTUARIAL COST!

10. National Guard and Armed Forces Reserve Service

Under **the NEW CURRENT LAW**, ACT 66 of 2011, active members may be eligible to purchase up to five (5) years of service credit for time in all national guard service and

any U.S. armed forces reserve service on a year for year basis. Through June 30th, this is a formula based calculation. After that time, this will change to ACTUARIAL COST!

11. Military service

Under current law, members with at least five (5) years of credited service in ATRS may be eligible to purchase up to five (5) years of active military service credit provided they received an honorable discharge. Through June 30th, this is a formula based calculation. After that time, this will change to ACTUARIAL COST!

CONCLUSION

In most cases, purchased service cannot be used for vesting purposes. Also, only active members are eligible to purchase this service. Again, ATRS staff strongly encourages those members who are interested in establishing a purchase account to act quickly in order to ensure their purchase account is complete and established prior to **July 1, 2011**. For additional information including estimated costs regarding the purchase of service in ATRS, please contact the Benefits & Counseling Department at **501-682-1517** or **1-800-666-2877** to discuss your account options.